

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT TACOMA

NORTHWEST HOME DESIGNING INC.,
a Washington Corporation

Plaintiff,

v.

SOUND BUILT HOMES INC., et al.,

Defendant.

v.

REMIDO, INC., et al.,

Third-Party Defendants.

GERRY SLICK, et al.,

Counter-Claimants,

v.

NORTHWEST HOME DESIGNING INC.,

Counter-Defendant

Case No. C10-5016 RJB

ORDER DENYING NORTHWEST
HOME DESIGNING, INC.'S
MOTION TO DISMISS
COUNTERCLAIMS II AND III OF
GERRY SLICK AND GARY SLICK
DESIGN GROUP, INC.

This matter comes before the Court on Plaintiff/Counter-Defendant Northwest Home
Designing Inc.'s (NHD) motion to dismiss counterclaims II and III of Counter-Claimant Gerry

1 Slick and Gerry Slick Design Group, Inc. (collectively Slick). The Court has considered the
2 pleadings filed in support of and in opposition to the motion and the file herein.

3 **I. PROCEDURAL HISTORY AND RELEVANT FACTS**

4 On January 13, 2010, Plaintiff NHD brought suit against Defendants (collectively "Sound
5 Built") for copyright infringement, alleging that Sound Built made unauthorized copies of NHD's
6 home designs and used its unauthorized copies to build and sell more than 900 infringing homes.
7 (Dk. 1, pp. 1-6).

8 In December 2010, Sound Built interpleaded Gerry Slick and Gerry Slick Design Group,
9 Inc., (Slick), along with Remidco, Inc., Cascade Residential Design, Inc., and Level Design, LLC,
10 as third-party defendants for breach of warranty, contribution, and indemnification. (Dk. 39, pp.
11 11-16). Sound Built's third-party claims against Slick request indemnification in the event that one
12 of Sound Built's plans created by Slick are found to infringe NHD's copyrights. (Dk. 39, pp. 27-28).

13 On January 6, 2011, Slick answered the third-party complaint and counterclaimed against
14 NHD for (1) breach of contract, (2) unjust enrichment, and (3) unfair business practices - RCW Ch.
15 19.86 *et seq.* (Dk. 52, pp. 1-8). Slick's claims are premised on the following factual allegations:
16 Slick is in the business of producing original architectural building plans for single family
17 residences, and licensing the use of those plans to contractors and others. Slick and NHD entered
18 into a contract whereby NHD acquired the right to use Slick Design 1580 pursuant to a use
19 privilege in exchange for an agreement to pay royalties to Slick for the use thereof. Slick contends
20 that NHD has exceeded the scope of the use privilege and has failed to pay royalties for use of
21 Design 1580. (Dkt. 52, p. 5).

22 Pursuant to Fed. R. Civ. P. 12(b)(1) and (6), NHD moves the Court to dismiss Slick's
23 counterclaims of unjust enrichment and unfair business practices for lack of jurisdiction and failure
24 to state a claim upon which relief may be granted. (Dkt. 56, pp. 1-2). The argument is that the
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1 Copyright Act, 17 U.S.C. § 301, preempts these state law causes of action.

2 **II. STANDARDS FOR MOTION TO DISMISS - RULE 12(b)(1) and (6)**

3 A motion to dismiss under Fed. R. Civ. P. 12(b)(1) addresses the court's subject matter
4 jurisdiction. Fundamentally, federal courts are of limited jurisdiction. *Kokkonen v. Guardian Life*
5 *Ins. Co.*, 511 U.S. 375, 377 (1994). "A federal court is presumed to lack jurisdiction in a particular
6 case unless the contrary affirmatively appears." *Stock West, Inc. v. Confederated Tribes*, 873 F.2d
7 1221, 1225 (9th Cir. 1989). Limits on federal jurisdiction must be neither disregarded nor evaded.
8 *Owen Equipment & Erection Co. v. Kroger*, 437 U.S. 365, 374 (1978). A plaintiff bears the burden
9 to establish that subject matter jurisdiction is proper. *Kokkonen*, 511 U.S. at 377; *Prescott v. United*
10 *States*, 973 F.2d 696, 701 (9th Cir. 1992).

11 Upon a motion to dismiss pursuant to Rule 12(b)(1), a party may make a jurisdictional
12 attack that is either facial or factual. *Safe Air for Everyone v. Meyer*, 373 F.3d 1035, 1039 (9th Cir.
13 2004). A facial attack occurs when the movant "asserts that the allegations contained in a complaint
14 are insufficient on their face to invoke federal jurisdiction." *Id.* A factual attack occurs when the
15 movant "disputes the truth of the allegations, that by themselves, would otherwise invoke federal
16 jurisdiction." *Id.* In a factual challenge, a court may rely on evidence extrinsic to the pleadings and
17 resolve factual disputes relating to jurisdiction. *St. Clair v. City of Chico*, 880 F.2d 199, 201 (9th
18 Cir. 1989); *Roberts v. Corrothers*, 812 F.2d 1173, 1177 (9th Cir. 1987). When considering a
19 motion to dismiss for lack of subject matter jurisdiction, the federal district court is not restricted to
20 the face of the pleadings, but may review any evidence, such as affidavits and testimony, to resolve
21 factual disputes concerning the existence of jurisdiction, and consideration of material outside
22 pleadings does not convert the motion into one for summary judgment. *McCarthy v. United States*,
23 850 F.2d 558, 560 (9th Cir. 1988). With a factual Rule 12(b)(1) challenge, a court may look
24 beyond the complaint to matters of public record without having to convert the motion into one for
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1 summary judgment. *White v. Lee*, 227 F.3d 1214, 1242 (9th Cir. 2000); *Mack v. South Bay Beer*
2 *Distribs., Inc.*, 798 F.2d 1279, 1282 (9th Cir. 1986). In support of a motion to dismiss under Rule
3 12(b)(1), the moving party may submit "affidavits or any other evidence properly before the court.
4 It then becomes necessary for the party opposing the motion to present affidavits or any other
5 evidence necessary to satisfy its burden of establishing that the court, in fact, possesses subject
6 matter jurisdiction." *Colwell v. Dep't of Health and Human Servs.*, 558 F.3d 1112, 1121 (9th Cir.
7 2009).

8 The Court's review of a motion to dismiss brought under Fed. R. Civ. P. 12(b)(6) is limited
9 to the complaint. *Lee v. City of Los Angeles*, 250 F.3d 668, 688 (9th Cir. 2001). All material
10 factual allegations in the complaint "are taken as admitted," and the complaint is to be liberally
11 "construed in the light most favorable" to the plaintiff. *Id.* A complaint should not be dismissed
12 under Fed. R. Civ. P. 12(b)(6) "unless it appears beyond doubt that the plaintiff can prove no set of
13 facts in support of his claim which would entitle him to relief." *Conley v. Gibson*, 355 U.S. 41,
14 45-46 (1957). Dismissal under Fed. R. Civ. P. 12(b)(6) may be based upon "the lack of a
15 cognizable legal theory or the absence of sufficient facts alleged under a cognizable legal theory."
16 *Balistreri v. Pacifica Police Dept.*, 901 F.2d 696, 699 (9th Cir. 1990). While a complaint attacked
17 by a Rule 12(b)(6) motion to dismiss does not need detailed factual allegations, a plaintiff's
18 obligation to provide the grounds of his entitlement to relief requires more than labels and
19 conclusions, and a formulaic recitation of the elements of a cause of action will not do. *Bell*
20 *Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007). Factual allegations must be enough to raise a right
21 to relief above the speculative level, on the assumption that all the allegations in the complaint are
22 true. *Id.*; *Pena v. Gardner*, 976 F.2d 469, 471 (9th Cir. 1992).

23 NHD's motion to dismiss asserts that Slick's causes of action for unjust enrichment and
24 unfair business practices are preempted by the Copyright Act, 17 U.S.C. § 301, and thus, this Court
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1 lacks jurisdiction and/or the complaint fails to state a claim upon which relief may be granted.

2 **III. COPYRIGHT ACT PREEMPTION - 17 U.S.C. § 301(a)**

3 The Copyright Act specifically preempts "all legal or equitable rights that are equivalent to
4 any of the exclusive rights within the general scope of copyright." 17 U.S.C. § 301(a); *Altera Corp.*
5 *v. Clear Logic, Inc.*, 424 F.3d 1079, 1089 (9th Cir. 2005). The intention of Section 301 of the
6 Copyright Act is to preempt and abolish any rights under the common law or statutes of a state that
7 are equivalent to copyright and that extend to works within the scope of the federal copyright law.
8 *Laws v. Sony Music Entertainment, Inc.*, 448 F.3d 1134, 1137 (9th Cir. 2005); see also *Maljack*
9 *Prods. v. GoodTimes Home Video Corp.*, 81 F.3d 881, 888 (9th Cir. 1996). The rights protected
10 under the Copyright Act include the rights of reproduction, preparation of derivative works,
11 distribution, and display. 17 U.S.C. § 106; *Laws*, at 1137; *Altera Corp.*, at 1089. The copyright is
12 the right to control the work, including the decision to make the work available to or withhold it
13 from the public. *Laws*, at 1137.

14 The Ninth Circuit has adopted a two-part test to determine whether a state law claim is
15 preempted by the Copyright Act. First, the work at issue must come within the subject matter of
16 copyright. Second, the state law rights must be equivalent to the exclusive rights of copyright.
17 *Laws*, at 1137-38; *Grosso v. Miramax Film Corp.*, 383 F.3d 965, 968 (9th Cir. 2004). To survive
18 preemption, the state law claim must include an "extra element" that makes the right asserted
19 qualitatively different from those protected under the Copyright Act. *Altera Corp.*, at 1089; *Laws*,
20 at 1143; *Summit Mach. Tool Mfg. v. Victor CNC Sys.*, 7 F.3d 1434, 1439-40 (9th Cir.1993).
21 Whether copyright preemption applies is a question of law. *Altera Corp.*, at 1089.

22 NHD contends that Slick's state law claims for unjust enrichment and unfair business
23 practices are based on NHD's allegedly unlicensed use of a home plan. Home plans, as either
24 architectural works or technical drawings, are proper subject matter for copyright registration. It is
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1 asserted that these claims are based solely on rights equivalent to those protected by the federal
2 copyright laws and thus, are preempted.

3 **Unjust Enrichment**

4 The Ninth Circuit, as have most courts, has held that the Copyright Act does not preempt the
5 enforcement of contractual rights. *Altera Corp.*, at 1089; *Meridian Project Systems, Inc. v. Hardin*
6 *Const. Co., LLC*, 426 F.Supp.2d 1101, 1108 (E.D. Cal. 2006). In reaching its finding of no federal
7 preemption in *Altera*, the Ninth Circuit found "compelling" the Seventh Circuit's analysis in
8 *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir.1996). *Id.* at 1089. In *ProCD*, a consumer
9 purchased ProCD's software and used it in a manner contrary to the terms of the shrinkwrap license;
10 he made it available to the public for a reduced price, although the terms of the license allowed only
11 private use. The Seventh Circuit held the rights created by contract are not equivalent to any of the
12 exclusive rights within the general scope of copyright. The court focused its analysis on the
13 purpose
14 of federal preemption; to prevent "states from substituting their own regulatory systems for those of
15 the national government." *Id.* at 1455. The Seventh Circuit noted that courts usually read
16 preemption clauses to leave private contracts unaffected. *Id.* at 1454. The court noted that three
17 other Circuits have held rights created by contract are outside the scope of the Federal Copyright
18 Act. See, *National Car Rental System, Inc. v. Computer Associates International, Inc.*, 991 F.2d
19 426, 433 (8th Cir. 1993); *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1501 (5th Cir.
20 1990); and *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923, 926 (4th Cir. 1988). The Seventh
21 Circuit analogized that "[j]ust as § 301 [of the Copyright Act] does not itself interfere with private
22 transactions in intellectual property, so it does not prevent states from respecting those
23 transactions." *Id.* "A copyright is a right against the world. Contracts, by contrast, generally affect
24 only their parties; strangers may do as they please, so contracts do not create 'exclusive rights.' "

1 *Id.* at 1454. The "extra element" was the mutual assent and consideration required by a contract
2 claim. *Id.* The Seventh Circuit concluded "a simple two-party contract is not 'equivalent to any of
3 the exclusive rights within the general scope of copyright' and therefore may be enforced." *Id.*, at
4 1455.

5 A claim for breach of contract has the "extra element" of an alleged exchange of
6 promises/representations between the parties. The claim depends on more than the mere act of
7 copying or distribution regulated by the federal Copyright Act, and is on that basis not preempted
8 by Section 301(a). *Idema v. Dreamworks, Inc.*, 162 F.Supp.2d 1129, 1192 (C.D. Cal. 2001). The
9 breach of contract claim seeks to enforce the plaintiff's bargained-for right not to have certain
10 information disclosed to others or used by a particular individual, rather than, as the copyright law
11 provides, to enforce an exclusive right to reproduce, distribute and display certain works. See,
12 *Selby v. New Line Cinema Corp.*, 96 F.Supp.2d 1053, 1061 (C.D. Cal. 2000). See also, *Laws v.*
13 *Sony Music Entertainment, Inc.*, 448 F.3d 1134, 1143 (9th Cir. 2005) (To the extent plaintiff has
14 enforceable contractual rights regarding the use of the copyright, the remedy may lie in a breach of
15 contract claim); *Chesler/Perlmutter Prods., Inc. v. Fireworks Entertainment, Inc.*, 177 F.Supp.2d
16 1050, 1058-59 (C.D. Cal. 2001) (Breach of contract action not subject to copyright preemption).

17 In apparent recognition of this authority, NHD does not seek dismissal of Slick's breach of
18 contract claim for failure to pay royalties for use of the home design. NHD does assert that Slick's
19 unjust enrichment claim is preempted by the Copyright Act. The dispositive preemption issue is
20 whether the rights protected by Slick's claim for unjust enrichment are equivalent to the rights
21 protected by copyright or, as claimed by Slick, arise out of contract.

22 In *Del Madera Props. v. Rhodes & Gardner, Inc.*, 820 F.2d 973, 976 (9th Cir.1987),
23 overruled on other grounds by *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994), the Ninth Circuit held
24 that a claim for unjust enrichment was equivalent to a claim for copyright infringement, and thus
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1 preempted, because the claim at issue lacked an extra element; the bilateral expectation of
2 compensation. Although unjust enrichment claims are not categorically preempted by the
3 Copyright Act, Plaintiff must allege as basis for the claim, an element other than the unauthorized
4 use of the copyrighted work, or the claim will be dismissed. *Id.* Here, Slick has alleged an extra
5 element sounding in contract: the implied promise of compensation in the form of royalty payments.
6 A claim for unjust enrichment is not preempted by the Copyright Act where it alleges an extra
7 element that transforms the action from one arising under the ambit of the federal statute to one
8 sounding in contract. See *Grosso v. Miramax Film Corp.*, 383 F.3d 965, 968 (9th Cir. 2004)
9 (implied-in-fact contract is not preempted by the Copyright Act); *Doody v. Penguin Group (USA)*
10 *Inc.*, 673 F. Supp.2d 1144, 1166 (D. Hawaii, 2009) (same). To the extent Slick's unjust enrichment
11 claim sounds in implied-in-fact contract, it is not subject to Copyright Act preemption.
12 Accordingly, the unjust enrichment claim is not subject to dismissal for lack of jurisdiction or
13 failure to state a claim.

14 **Unfair Business Practices - RCW 19.86.**

15 As previously noted, the Copyright Act preempts all legal or equitable rights that are
16 equivalent to any of the exclusive rights within the general scope of copyright. The rights protected
17 under the Copyright Act include the rights of reproduction, preparation of derivative works,
18 distribution and display. The Copyright Act's preemptive ambit does not extend to state law claims
19 that include an extra element that makes the right asserted qualitatively different from those
20 protected under the Copyright Act. *Altera Corp. v. Clear Logic, Inc.*, 424 F.3d 1079, 1089 (9th Cir.
21 2005). To the extent that the cause of action for unfair business practices is based upon allegations
22 of copyright infringement, it is preempted by federal law. See *Kodadek v. MTV Networks, Inc.*, 152
23 F.3d 1209, 1212 (9th Cir. 1998); *Enreach Technology, Inc. v. Embedded Internet Solutions, Inc.*
24 403 F. Supp.2d 968, 977-78 (N.D. Cal. 2005).

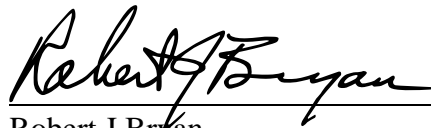
1 Here, Slick asserts as an unlawful business practice claim that NHD has allegedly exceeded
2 the scope of its use privilege by selling licenses in Slick's home plan without disclosure and without
3 payment of royalties to Slick. Slick claims this alleged "deceptive use" is what differentiates the
4 unlawful business practices claim from a copyright claim. This view is in accord with the view
5 taken by the Ninth Circuit in *Altera Corp. v. Clear Logic, Inc.* 424 F.3d 1079, 1089-90 (9th Cir.
6 2005). In *Alera* the defendant was alleged to have induced the plaintiff's customers to use the
7 plaintiff's software in violation of its licensing agreement. The court held the state law tort claim
8 concerning the unauthorized use of the software's end-product was not within the rights protected
9 by the federal Copyright Act and thus, not subject to preemption. *Id.* Accordingly, to the extent
10 Slick's unfair business practice is premised on the contractual obligations of NHD, the claim is not
11 subject to dismissal.

12 IV. CONCLUSION

13 The Court, having considered the motion, response, reply, and the relevant documents
14 herein, finds that Counter-Claimant Slick has stated cognizable claims for unjust enrichment and
15 unfair business practices that are not subject to federal Copyright Act preemption. Therefore, it is
16 hereby **ORDERED** that:

17 Plaintiff/Counter-Defendant Northwest Home Designing Inc.'s Motion to Dismiss
18 Counterclaims II and III of Counter-Claimant Gerry Slick and Gerry Slick Design Group, Inc. (Dkt.
19 56) is **DENIED**.

20 DATED this 1st day of March, 2011.

21 
22 Robert J Bryan
23 United States District Judge
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25